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D.H.HOWDEN & CO.LIMITED

1972 Annual Report

To Our Shareholders:

The Company has completed the most profitable year in its history. Sales for the year were $27,794,722, an increase of 26% over 1971. Profits from operations resulted in a return of 16.2% on Shareholders' Equity (January 1). . . . .

Highlights.

	1972	1971 (Restated)
Gross sales - increase 26%	$27,794,722	$22,045,644
Earnings before income taxes and extraordinary item	875,375	399,964
Income taxes	444,000	258,800
Earnings before extraordinary item	431,375	141,164
Per Common share	0.82	0.24
Extraordinary item - gain on land	134,824	
Net income	566,199	141,164
Per Common share	1.09	0.24
Inventories	3,331,779	2,651,372
Working Capital	3,737,735	3,241,458
Long-term Debt	991,109	1,072,856
Retained Earnings	2,397,394	1,852,261
Ratio of current assets to current liabilities	1.80:1	1.99:1
Shareholders' equity per Common share	$ 5.38	$ 4.29

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held in the Campaign Room, Holiday Inn, 1210 Wellington Road, London, Ontario on Thursday, the 3rd of May, 1973 at the hour of 11:00 a.m.

D. H. HOWDEN & CO. LIMITED

To our Shareholders:

Results for the first quarter showed an increase in sales of 48% over the same period of 1971 and a corresponding improvement in earnings to $100,140 from a loss of $26,646 in 1971.

The increase is largely a result of expanded sales to Pro Hardware stores and the addition of new retail outlets to Howden's merchandise programs. Howden's Electrical Supply also is experiencing excellent growth. Wiseway Sales Statistics are part of the first quarter sales in 1972, having commenced trading in the latter part of 1971. Early in the year the Company discontinued its Contract Hardware business and sold one of its retail stores.

Sales for April again surpassed 1971, and present market conditions indicate that we should enjoy an excellent year.

May 10, 1972.

D. H. M. Stewart
President

CONSOLIDATED STATEMENT OF INCOME

	For the Three Months Ended March 31		For the 12 Months Ended March 31	
	1972	1971	1972	1971
Gross Sales	$6,593,157	$4,433,869	$25,182,038	$19,857,391
Estimated Net Income Before Taxes (Loss)	216,140	(39,666)	675,033	157,746
Estimated Provision for Income Taxes (Recovery)	116,000	(13,020)	387,820	96,328
Net Income After Taxes (Loss)	$ 100,140	$ (26,646)	$ 287,213	$ 61,418
Earnings (Loss) Per Common Share after Provision for Preference Dividend	18.7 cents	(6.5 cents)	53.2 cents	7.6 cents

The above information is taken from the Company's unaudited interim financial statements as at March 31, 1972 and is subject to adjustment on audit at December 31, 1972.

D. H. HOWDEN & CO. LIMITED

INTERIM

REPORT

TO THE

SHAREHOLDERS

For the Three Months Ended
March 31, 1972

D. H. HOWDEN & CO. LIMITED
and subsidiary companies

To Our Shareholders:

Consolidated sales for the first half of 1972 were $14,770,147 which represents a 41% increase over the same period in 1971. Sales increased markedly in all Divisions - Hardware, Building Supply and Electrical Supply. New consumer advertising programs, an expanding dealer organization, and improved economic conditions, were all important elements to this sales growth. The increased sales figures recall too the adverse business conditions we faced during the first half of 1971.

We report consolidated earnings of $237,277 or 46¢ per share for the six months ending June 30, 1972 compared to $33,178 or 5¢ per share in 1971. For the past twelve months of operations we report consolidated earnings of $364,526 or 69¢ per share, compared to 18¢ per share for the twelve month period ending June 30, 1971.

During the past several years the Company has invested time and money developing a highly sophisticated computerized system for managing the business, for helping our customers manage their businesses, and for processing expanding sales volumes at a decreasing rate of cost. The operations have been supported by employee educational programs to provide the managerial skills to administer the systems and to control costs effectively. These factors, when combined with expanded sales volume, account in a major way for the improved profitability. At the same time we have been able to advance our market position through highly competitive pricing and low cost distribution.

During the first half of 1972 we discontinued our Contract Hardware Division and sold two Company-owned retail stores. All costs relative to these activities have been written off.

Management is budgeting for continued good business in the second half of the year.

July 31, 1972

D. H. M. Stewart
President

D. H. HOWDEN & CO. LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

	For the Six Months Ended June 30		For the Twelve Months Ended June 30	
	1972	1971	1972	1971
Gross Sales	$14,770,147	$10,472,506	$27,320,391	$20,613,599
Estimated Net Income before Taxes	505,277	119,678	804,826	270,310
Estimated Provision for Income Taxes	268,000	86,500	440,300	161,100
Net Income after Taxes	$ 237,277	$ 33,178	$ 364,526	$ 109,210
Dividends to Preference Shareholders	6,409	6,478	20,835	21,136
Earnings available to Common Shareholders	$ 230,868	$ 26,700	$ 343,691	$ 88,074
Earnings per Common Share	46.2 cents	5.3 cents	68.7 cents	17.6 cents

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For the Six Months Ended June 30	
	1972	1971
Source of Funds		
Net Income for period	$ 237,277	$ 33,178
Non cash charges - Depreciation	21,018	20,506
- Loss on disposal of equipment	2,098	
- Deferred income taxes	14,500	(2,650)
	274,893	51,034
Second Preference Shares issued	20,000	19,500
Debentures issued	17,500	
Proceeds from sale of fixed assets	48,310	
Proceeds from mortgage	10,000	10,000
Proceeds from debenture	3,874	
Proceeds from sale of life insurance policy		2,880
Reduction of advances to 50% owned company		37,353
	$ 374,577	$ 120,767
Application of Funds		
Additions to property, plant & equipment	$ 18,877	$ 35,193
Purchase of first preference shares	5,050	
Redemption of second preference shares	11,500	20,000
Reduction of long term debt	50,699	23,602
Payment of dividends - first preference shares	6,409	6,478
Investment in and advance to 50% owned company	5,704	
Investment in debenture receivable	81,495	
	$ 179,734	$ 85,273
Increase in working capital	$ 194,843	$ 35,494

The above statements are taken from the Company's unaudited interim financial statements as at June 30, 1972 and are subject to adjustment on audit at December 31, 1972.

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D. H. HOWDEN & CO. LIMITED

INTERIM REPORT TO THE SHAREHOLDERS

For the Six Months Ended
June 30, 1972

D. H. HOWDEN & CO. LIMITED
and subsidiary companies

To Our Shareholders:

Consolidated sales, exclusive of non-hardware transactions recorded at cost by the wholly-owned subsidiary - Wiseway of Canada Limited - for the first nine months of 1972 are $20,770,258, compared to $16,126,912 for the same period in 1971, representing a 26% increase. The Company expects to continue to report consolidated sales on this basis so that normally high volume Wiseway transactions performed at cost will not detract from or distort Howden trading results. The effect of management fee income from Wiseway is of course reflected in published Howden financial statistics.

Sales gains reported at mid year continue through the third quarter in all Divisions. New consumer advertising programs combined with improved economic conditions comprise an important element to the sales growth.

We report consolidated earnings of $331,309 or 63¢ per share for the nine months ending September 30, 1972, compared to $115,903 or 20¢ per share in 1971. For the past twelve months of operations (October 1, 1971 to September 30, 1972) we report consolidated earnings of $375,833 or 71¢ per share, compared to 23¢ per share for the twelve-month period ending September 30, 1971.

Record volume sales demand maximum use of the Company's systems, facilities and financing. Accordingly, investment in and operation of Company-owned retail stores has now been reduced to one outlet which will be maintained largely for experimental purposes. Disposition in October of the Company's surplus unused real estate on London's York Street for cash has given rise to a profit of $134,000 which will be shown in the last quarter results.

Management is budgeting for a continued increase in sales and profits in the last quarter. A most successful September promotional catalogue has helped our dealers expand their fall sales which is accruing to our benefit in the month of October. We will shortly be distributing an attractive Christmas catalogue to the consumer and expect it to react well on last quarter sales.

D. H. M. Stewart
President

November 6, 1972

CONSOLIDATED STATEMENT OF EARNINGS

	For the Nine Months Ended September 30		For the Twelve Months Ended September 30	
	1972	1971	1972	1971
Gross Sales	$20,770,258	$16,126,912	$26,712,990	$21,116,315
Estimated Net Income Before Taxes	704,609	271,903	851,933	328,541
Estimated Provision for Income Taxes	373,300	156,000	476,100	191,600
Net Income After Taxes	$ 331,309	$ 115,903	$ 375,833	$ 136,941
Dividends to Preference Shareholders	$ 12,590	$ 12,942	$ 20,551	$ 21,012
Earnings Per Common Share	63.7 cents	20.6 cents	71.1 cents	23.2 cents

The above information is taken from the Company's unaudited interim financial statements as at September 30, 1972 and is subject to adjustment on audit at December 31, 1972.

D. H. HOWDEN & CO. LIMITED

INTERIM

REPORT

TO THE

SHAREHOLDERS

For the Nine Months Ended
September 30, 1972

D. H. HOWDEN & CO. LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Notice is hereby given that the Annual Meeting of the Shareholders of D. H. Howden & Co. Limited (hereinafter called the "Corporation") will be held in the Campaign Room, Holiday Inn, 1210 Wellington Road, London, Ontario on Friday the 12th of May, 1972 at the hour of 11:00 o'clock in the forenoon, local time, for the following purposes:

1. To receive the Annual Report of the Directors to the Shareholders and the Financial Statements for the year ended December 31, 1971;
2. To elect Directors;
3. To appoint Auditors and to authorize the Directors to fix their remuneration;
4. To transact such other and further business as may properly come before the meeting.

A copy of the Annual Report and an Information Circular accompany this notice.

It is desirable that as many shareholders as possible be represented at the meeting. If you do not expect to attend, and would like your shares represented, kindly sign and return the form of proxy accompanying this notice in the envelope provided for that purpose.

DATED at London, Ontario this 24th day of March, 1972.

By Order of the Board.

Norman McBeth,
Secretary-Treasurer.

D. H. HOWDEN & CO. LIMITED

INFORMATION CIRCULAR

as at March 24, 1972

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of D. H. Howden & Co. Limited (hereinafter referred to as the "Corporation") of proxies to be used at the Annual Meeting of the Shareholders of the Corporation to be held at the time and place set forth in the enclosed notice of meeting. It is expected that solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Corporation at nominal cost. The cost of solicitation by management will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Corporation. **A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON TO REPRESENT HIM AT THE MEETING MAY DO SO BY EITHER INSERTING SUCH PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER PROPER FORM OF PROXY AND, IN EITHER CASE, DELIVERING THE COMPLETED PROXY TO THE SECRETARY-TREASURER OF THE COMPANY.**

A shareholder who has given a proxy may revoke it either (a) by signing a proxy bearing a later date and delivering it to the Secretary-Treasurer of the Corporation, or (b) as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by such proxy, by signing written notice of revocation and delivering it to the Secretary-Treasurer of the Corporation or the Chairman of the meeting.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **IN THE ABSENCE OF SUCH DIRECTION, SUCH SHARES WILL BE VOTED FOR THE ELECTION OF DIRECTORS AND APPOINTMENT OF AUDITORS AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting. At the time of the printing of this circular, the management of the Corporation knows of no such amendment, variation or other matter to come before the meeting other than the matters referred to in the notice of meeting.

VOTING SHARES

On the 24th day of March, 1972, there were outstanding 500,000 common shares without nominal or par value, each carrying the right to one vote per share. Mr. D. H. M. Stewart, the President of the Corporation, is the direct beneficial owner of 16,340 common shares and controls Dajo Holdings Limited which owns beneficially 195,000 common shares of the Corporation with the result that Mr. Stewart is deemed to own 211,340 common shares, representing 42.2% of the outstanding common shares, and is the only shareholder known to the directors and senior officers to own beneficially, directly or indirectly, more than 10% of the outstanding common shares of the Corporation.

ELECTION OF DIRECTORS

The board consists of seven directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are now members of the Board of Directors and have been since the dates indicated. The management does not contemplate that any of the nominees will be unable to serve as a director but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each director elected will hold office until the next Annual Meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws of the Corporation.

The following table and the notes thereto state the names of all the persons proposed to be nominated for election as directors, all of the positions and offices with the Corporation now held by them, their principal occupations or employments, the year in which they became directors of the Corporation, and the approximate number of shares of each class of the Corporation beneficially owned directly or indirectly by each of them as at March 24, 1972:

	Became Director	Approximate Number of Common Shares Held
DAVID HOWDEN McFARLANE STEWART, President and Chief Executive Officer of the Corporation since 1969; formerly Vice-President and Managing Director	1951	211,340
NORMAN McBETH, Secretary-Treasurer and Chief Financial Officer of the Corporation	1952	7,147
DONALD RAYMOND HUGHES, President of Span-Canada Electric Limited, a subsidiary of the Corporation	1961	4,383
ROY WATT ROBERTSON, Vice-President Isard, Robertson, Easson & Co. Limited, Investment Dealers	1955	1,600
JOHN WILLIAM ADAMS, F.C.A., Executive Vice-President and Treasurer, Emco Limited, Manufacturers	1964	5*
JOHN DAVID HARRISON, M.B.E., Q.C., Barrister and Solicitor, Partner, Harrison, Elwood, Gregory, Littlejohn, Fleming, & Adams	1969	900
JOSEPH HAROLD UNGER, Retired since 1965, formerly President, Metropolitan Stores of Canada Limited, Retailers	1971	200

* Kathleen L. Adams, wife of Mr. Adams, is a director, officer and beneficial owner of all of the shares of Burke Holdings Limited, which owns of record and beneficially 1,000 common shares of the Corporation.

The information as to shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective directors individually. Unless otherwise stated above, each of the above-named persons has held his respective principal occupation or employment indicated for at least five years.

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

1. Aggregate direct remuneration paid or payable in 1971 to the Directors and Senior Officers of the Corporation was:

By the Corporation	$124,510.00
By the Subsidiaries of the Corporation whose financial statements are not consolidated with those of the Corporation	$ 23,000.00

2. Estimated aggregate cost to the Corporation and its subsidiaries during 1971 of all pension or retirement benefits proposed to be paid to the Directors and Senior Officers of the Corporation under existing plans in the event of retirement at normal retirement age: $1,690.00.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the re-appointment of Messrs. Touche, Ross & Co., Chartered Accountants, 200 Queens Avenue, London, Ontario as auditors of the Corporation to hold office until the next Annual Meeting of Shareholders. Messrs. Touche, Ross & Co. have been auditors of the Corporation for more than five years.

GENERAL

The information contained herein is given as of March 24, 1972. The Management knows of no other matters to come before the Annual Meeting of the Shareholders other than the matters referred to in the notice of meeting.

To Our Shareholders.

D.H.M. Stewart
President and Chairman

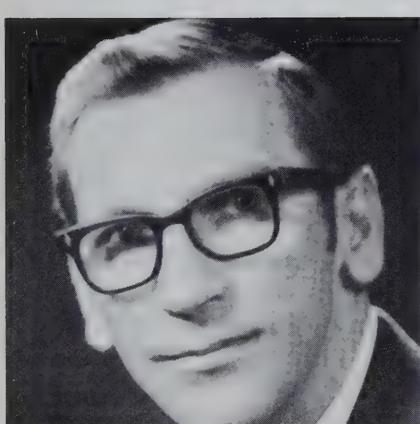
The Company has completed the most profitable year in its history. Sales for for the year were $27,794,722, an increase of 26% over 1971. Profits from operations resulted in a return of 16.2% on Shareholders' Equity(January 1), or 21.32% after inclusion of an extraordinary profit on disposal of land.

Your Board of Directors is pleased to submit herewith the Annual Report of the Company and its subsidiaries together with the Consolidated Financial Statements for the year ended December 31st, 1972, and the Report of the Auditors.

Consolidated income from operations was $431,375 or 82 cents per share compared with $141,164 or 24 cents per share as restated for 1971. The extraordinary gain of $134,824 from sale of land increased earnings per share to $1.09. Restatement of the 1971 figures recognizes the Company's decision to report its jointly owned subsidiary - Computer Horizons (Canada) Limited - on an equity basis, as recommended and circulated by the Canadian Institute of Chartered Accountants during 1972. The reporting method is described in detail in Note 2 of the accompanying financial statements.

Merchandising programs proved highly successful in 1972; and by highly developed use of its computer and budgetary control systems, the Company has been able to control costs as sales volumes increase. This process of "fixing" costs in the face of increasing sales has resulted in an improved level of net profit.

D. H. Howden & Co. Limited is becoming a diversified company with sales and revenues rising from eight main sources:



W.J. Tarvit
Vice President of Marketing - Hardware

"Our continuing challenge is . . . . greater profitability and return on investment for our Pro Franchise Dealers . . . . their success is our success . . . . and to satisfy the "do-it-yourself" market with its swelling demand for hardware products . . . ."

1. The Hardware Division which sells to retail hardware stores is the largest division of the Company. Approximately 80% of its volume derives from sales to franchised "Pro" stores. Much upgrading of Pro franchises occurred in 1972 by improving their store displays and product assortment, and by replacing non-performing dealers with new franchisees. As a result, purchases by Pro stores increased over 25% in 1972.

New and expanded Pro consumer advertising programs provided a further major impetus to sales growth.

Pro Hardware stores are established throughout Canada, and are expanding. D. H. Howden & Co. Limited, as a shareholder in Pro Hardware (Canada) Limited, holds the Pro distributor franchise for Ontario. Late in 1972, the Quebec member of Pro Hardware (Canada) Limited — A. Prud'homme & Fils Limitee, Montreal — was purchased by Lacroix Inc. of Quebec City. A progressive distributor of substantial sales dimension, Lacroix Inc. will add much to the Pro organization through enlarged purchasing volume, and by expansion of the Pro retail franchise in Quebec. With this development, and concurrent growth in all other Provinces, Pro's competitive position is steadily improving.

Eight Sources.

2. The Specialty Division is comprised of a specialized sales staff offering franchised lines to sporting goods dealers, chain stores and department stores. The Division's key-volume sporting goods lines include Remington Arms of Canada Limited, Canadian Industries Limited, Winchester Canada, Northland hockey sticks. In 1973 the Company commenced distribution of Ithaca Gun Company products on a franchise basis, an important addition to the Division. Sporting goods sales increased substantially during 1972.

The Division is also responsible for the development of the Columbia Franchise Program to power equipment dealers. This franchise provides for distribution of garden tractors, tillers, lawn mowers, snow blowers, and snowmobiles of superior quality and value through volume dealers. From a standing start in 1971, the Columbia program is now supported by fifty franchisees. While not yet large in number of dealers, it is growing. Quality power equipment products need specialty dealers who provide full service, and the Company is thus strengthening its future in this significant market.

F.P. Foran
Vice President of Marketing - Building Supply

". . . . retailers will need expert help in the areas of site selection, home centre building design, managing and merchandising of a home centre, fixtures and display, advertising and promotion, store traffic, and broad selection of inventories. Outlets using these combined assets will . . . . be in a position to compete . . . ."

3. The Building Supply Division directs its sales efforts exclusively to building materials or lumber dealers. Sales during 1972 increased 21%. Recently the Company completed a supply contract with the Independent Lumber Dealers Cooperative (A.I.D.), possibly the largest cooperative lumber dealer buying organization in Canada.

Howden is now providing store engineering for conversion of A.I.D. member stores to the Home Centre concept, and simultaneously, the Division is supplying hardware. With member stores in Ontario, Quebec and the Maritimes, this association moves Company sales activities for the first time beyond the Province of Ontario. It is one of the factors expected to provide major sales growth during 1973.

4. Wiseway of Canada Limited is the Company's subsidiary operating an all embracing franchise program for building materials dealers. It has not achieved the success originally planned. Most building materials dealers belong to one of the four major buying groups. To join Wiseway it is necessary for a dealer to leave his present buying group and this has raised a major sales obstacle.

We now believe greater progress will result if we confine our role in the franchise operation to the provision of store merchandising, consumer hardware products, advertising, and computer services, leaving to the existing dealer buying groups the function of supplying building materials. A revision of the program towards this end is contemplated during 1973.

Eight Sources.

C.W.K. Leroy
Vice President of Marketing - Electrical Supply

". . . . maintain in 1973 our market penetration with particular emphasis on industrial and institutional business . . . . smoothing out the seasonal and ecomomic highs and lows of the construction industry . . . ."

5. The Electrical Supply Division sells to the electrical construction trade and operates from three locations. The main distribution centre is in London, with satellite units in Sarnia and Kitchener. Sales of the Division increased 37% in 1972.

Profitability in the Electrical operation reflects closely the general economic conditions of its marketing area, and of the construction industry. In 1972, it experienced its most successful year.

As one of the charter members of Span-Canada Electric Limited, the Division continues to enjoy participation in and the advantages of Span's Canada-wide marketing and distribution.

6. The Retail Data Services Division sells data processing services to retailers. Through manual or cash register input at the dealer's store, the system produces the dealer's inventory management reports, and processes all his accounts receivable requirements. During 1973 a new simplified manual-input financial statement system will also become available. Low cost total systems of this nature have wide acceptance with dealers.

Recently the Division completed an agreement with a major appliance manufacturer to provide a similar service to its dealers. While the Division is still in a formative stage, we anticipate profitable operation in 1973.

7. The Dealer Services Division is responsible for store modernization. Its expertise makes possible design and merchandising of stores on a production basis, within the dealer's financial and space constraints. A group of merchandising crews operates continuously on store installations.

During November the Company installed in rented quarters, near its main operation, a model store where displays, stock assortments and store decor are studied, evaluated and improved. Within these surroundings new dealers are sold franchise and store modernization programs. The purchasing department also finds it invaluable in keeping product selection in tune with consumer preference.

The purpose of this Division is to create more effective dealers, to train them in Company systems, and to pass these benefits on at a breakeven profit position.

Eight Sources.

S. R. Millar
President, Computer Horizons (Canada) Limited

". . . . the system is unique . . . . includes an intensive education program for management . . . . the cost is less than one's own in-house computer . . . . it is a total system available now to companies of less than giant size . . . ."

8. Computer Horizons (Canada) Limited is the Company's jointly owned subsidiary. A review of its activities will be of interest to Shareholders.

In 1970 Management Horizons Inc., Columbus, Ohio, organized Management Horizons Data Systems Inc. (MHDS) to provide subscribing companies with a comprehensive program of management information. MHDS now operates a large computer centre at Columbus, Ohio, and has service contracts with 125 wholesale and retail firms representing over $1.5 billion of annual sales. It provides systems for inventory management, scientific buying procedures, order processing, customer invoicing, accounts receivable and payable, payroll and general accounting. Also it has a full range of retail systems available on an optional basis through the MHDS Retail Customer-Service System. These systems are sold by the subscriber to his retail customers.

Each subscriber controls his system through a terminal on his premises appropriate for his size of operation. It is connected to the central facility at Columbus by a data telephone line which transmits information forward for processing, then back to the subscriber's in-house printer. Each subscriber selects from available modules the system to suit his operating needs.

The system is unique for several reasons. A vital feature, and included in its price, is an intensive education program required of all subscribers' top management, wherein the executive is taught how to make full use of the system. Course content covers distribution management, financial management, profit planning, classification merchandising, scientific buying and many other concepts oriented toward better management performance.

The cost is less than operating one's own in-house computer furnishing comparable information; and since the system is related to sales volumes, it is economical to both large and small distributors. Finally, perhaps most importantly, it is a total system heretofore available to only the largest of firms because of cost.

In December 1972 the First National City Bank Capital Corporation, a subsidiary of the First National City Bank of New York, purchased controlling interest in MHDS and is now engaged in expanding the Columbus operation, adding new equipment to meet increasing volumes.

In anticipation of the potential Canadian market, Howden in 1970 entered into a joint venture with MHDS Inc., and established the Canadian company, Computer Horizons (Canada) Limited. This company is responsible for the marketing of MHDS systems in Canada on an exclusive basis, and now has a number of Canadian subscribers operating on the system. It expects to break even in operations during 1973, and to attain a profitable situation in 1974.

As a subscriber, Howden expects to join the program during 1973, after certain special parts which it needs become available for general use. The Company is now linked with the Columbus computer by a data line, and is using it for processing its Retail Data Services.

M.C. Humphrey
Vice President - Distribution

". . . . 1973 objectives stress low cost distribution . . . . higher service levels . . . . better turnover . . . . expanded truck fleet for precise delivery schedules . . . . and planning for warehouse expansion . . . ."

Distribution.

Basic to the success of the Company's marketing systems is the technology of its distribution processes. By rationalizing the supply process starting with the dealer (who operates to an organized inventory plan) back through the distribution centre to the supplier, cost can be effectively lowered. In this way competitive prices can be profitably maintained and growth accelerated.

In 1961 the Company constructed a 90,000 sq. ft. distribution centre in London and commenced extensive use of modern material handling methods. In 1970, after disposing of obsolete warehouse facilities in Toronto, the Company expanded its London centre by a further 65,000 sq. ft., and there consolidated all hardware distribution. The move reduced operating costs, improved employee productivity and permitted further sales expansion.

The need for a further warehouse addition is now appearing and the Company is planning new construction on a lease-back basis in London. Many details must be resolved, but the Board wishes Shareholders to know the direction of its thinking towards future growth.

To contain rising freight costs, the Company has expanded its fleet of trucks and tractor trailers and now delivers in them 80 to 90% of shipments to hardware customers. The vehicles are also used to backhaul freight from suppliers for cost savings.

N. McBeth
Vice President - Finance

". . . . for the maximum benefit . . . . the Corporation's cash and liquid assets must not stagnate . . . . the money must keep moving around . . . . controlled leverage is still the name of the game . . . ."

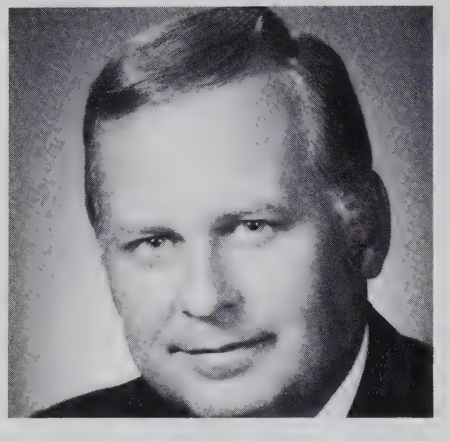
Finance and Administration.

We have commented earlier on the Company's rate of profitability in 1972, and the rate of return on shareholders' equity. Both are records for the Company and are prime contributors to the increase in working capital of $496,277, and in retained earnings of $545,133. Also included are proceeds of $134,824 from disposal of vacant land in downtown London (site of the original London warehouse).

Based on industry standards D. H. Howden & Co. Limited achieves a relatively high turnover of capital and is highly leveraged. This places critical emphasis on asset management, if the Company is to sustain growth through internal financing. During 1972 much work was concentrated on credit management, and on refinancing stores to positions which will sustain expanding sales within our required terms. Financial strength at the dealer level is vital in a successfully integrated distribution system.

Inventory levels are higher than at the end of 1971. This is a result of both expanded sales volumes and the necessity of carrying higher stocks of basic merchandise in order to overcome increasingly erratic factory shipping. During November and December in particular, basic inventories were built up in preparation for new store installations in the first part of 1973.

Finance and Administration (Cont'd)



K.G. Allaster, C.A.
Vice President - Controller

". . . . the continuing objective of the accounting, data processing, systems, budget and control functions is to serve the business by satisfying the information needs of customers and management . . . . in an environment of controlled cost and increased productivity . . . ."

Early in 1972, after careful consideration of capital investment, and return on investment and management involvement, we determined to sell or liquidate all but one of our Company owned stores. Experience indicated that management should concentrate its total effort on the distribution function, supporting and relying on franchised dealers to maintain the retail function. In the same vein, our contract hardware operation, in which we had invested considerable capital at little profit, was also liquidated. These moves released funds for more profitable use and to finance sales expansion.

New Appointments

The Board has approved the appointment of six Vice Presidents, all of whom have been associated with the Company for an extensive number of years, and who have participated fully in the Company's growth.

Vice President of Marketing	Hardware Division	W.J. Tarvit
Vice President of Marketing	Building Supply Division	F.P. Foran
Vice President of Marketing	Electrical Supply Division	C.W.K. Leroy
Vice President	Distribution	M.C. Humphrey
Vice President	Finance, And Secretary Treasurer	N. McBeth
Vice President	Controller	K.G. Allaster, C.A.

The Board's action is in recognition of their past contribution to Company growth and the increasing responsibility of these positions to the Company's future. The Board also supports the concept of spreading greater responsibility throughout senior management as a means of strengthening the management base of the Company.

Outlook.

Our budgets call for increased sales and profits in 1973, emphasizing the Company's unique position as a supplier of consumer merchandise to retailers in a very competitive market. The Company is preparing to use its expertise and systems to supply the growing Home Centre concept and do so on a low cost basis. For these reasons and because the Company supports a profitable system for retailers, its services are much in demand.

On behalf of the Board we express appreciation for the goodwill of our customers, the experience, loyalty and dedication of our employees, the excellent relations we enjoy with suppliers and for the support of our Shareholders.

David H. Stewart

"D.H.M. Stewart"
President

Directors

DAVID H.M. STEWART
Chairman
President, Pro Hardware (Canada) Limited

JOHN W. ADAMS, F.C.A.
Executive Vice President, Treasurer
and Director, Emco Limited
Director, Sifton Properties Limited

JOHN D. HARRISON, M.B.E., Q.C.
Partner, Harrison, Elwood
Barristers and Solicitors

DONALD R. HUGHES
President, Span-Canada Electric Limited

NORMAN McBETH

ROY W. ROBERTSON
Vice President, Isard Robertson Easson
Co. Limited, Investment Dealers
Director, General Products Mfg. Corp. Ltd.

JOSEPH H. UNGER
Director, Metropolitan Stores of Canada Limited

OFFICERS

D.H.M. STEWART
President and Chairman of the Board

N. McBETH
Vice President - Finance, and Secretary
Treasurer

K.G. ALLASTER, C.A.,
Vice President - Controller

W.J. TARVIT
Vice President of Marketing - Hardware
Division

F.P. FORAN
Vice President of Marketing - Building Supply
Division

C.W.K. LEROY
Vice President of Marketing - Electrical Supply
Division

M.C. HUMPHREY
Vice President - Distribution

RELATED COMPANIES

Computer Horizons (Canada) Limited
President - S.R. Millar

Wiseway of Canada Limited
President - R.T. Foran

HEAD OFFICE

635 Southdale Road
London, Ontario

AUDITORS

Touche Ross & Co.

TRANSFER AGENTS AND REGISTRARS

Canada Trust Co.
(Common Shares)
Toronto, Montreal, London, Winnipeg,
Calgary, Vancouver

ROYAL TRUST CO. — TORONTO
(First Preference Shares)

D. H. HOWDEN & CO. LIMITED AND SUBSIDIARY COMPANIES
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1972
(with comparative figures as at December 31, 1971)

Assets.

	1972	1971
Current		
Cash	$ 46,015	$ 70,917
Accounts receivable, less allowance for doubtful accounts of $204,165 in 1972 and $162,489 in 1971	4,940,433	3,695,805
Current portion of mortgage and debenture receivable	36,928	20,000
Inventories - at the lower of cost and net realizable value	3,331,779	2,651,372
Prepaid expenses	44,687	80,991
	8,399,842	6,519,085
Property, plant and equipment - at cost	502,781	537,530
Less accumulated depreciation	296,692	284,947
	206,089	252,583
Other		
Cash surrender value of life insurance	17,915	16,957
Equity in unconsolidated sub-sidiaries (Note 1)	2,800	2,800
Mortgage and debenture receivable	248,885	200,000
Deferred income taxes (Note 3)	4,000	22,000
	273,600	241,757
	$ 8,879,531	$ 7,013,425

On behalf of the Board

Director DAVID H.M. STEWART

Director N. McBETH

Liabilities

	1972	1971
Current		
Bank indebtedness - secured	$ 2,228,113	$ 1,265,064
Accounts payable and accrued liabilities	2,183,335	1,846,189
Current portion of long-term debt	68,848	32,037
Income taxes payable	181,811	134,337
	4,662,107	3,277,627
Computer Horizons (Canada) Limited (Note 2)	21,421	7,131
Long-term debt (Note 6)	991,109	1,072,856

Equity

SHAREHOLDERS EQUITY:

Capital stock (Note 7)		
5½% cumulative redeemable participating sinking fund first preference shares of $50 par value each Authorized and issued 1972 - 4,470 shares; 1971 - 4,701 shares	223,500	235,050
3% non-cumulative redeemable second preference shares Authorized shares of $1 par value each 1972 - 345,500 shares; 1971 - 369,000 shares Issued 1972 - 293,500 shares; 1971 - 278,000 shares	293,500	278,000
Common shares Authorized - 1,000,000 shares without par value Issued - 500,000 shares	290,500	290,500
Retained earnings	2,397,394	1,852,261
	3,204,894	2,655,811
	$ 8,879,531	$ 7,013,425

Earnings.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1972

(with comparative figures for 1971)

	1972	1971
Retained earnings, beginning of year		
As previously reported	$ 1,909,253	$ 1,769,730
Adjustment to reflect investment in Computer Horizons (Canada) Limited on the equity basis (Note 2)	56,992	37,729
As restated	1,852,261	1,732,001
Net income for the year	566,199	141,164
	2,418,460	1,873,165
Dividends		
First preference shares	12,590	12,942
Second preference shares	8,476	7,962
	21,066	20,904
Retained earnings, end of year	$ 2,397,394	$ 1,852,261

Income.

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1972

(with comparative figures for 1971)

	1972	1971
Gross sales	$27,794,722	$22,045,644
Less sales tax	2,140,454	1,720,135
	25,654,268	20,325,509
Cost of sales and operating expenses other than items noted below	24,616,493	19,787,531
Interest on long-term debt	67,567	69,671
Depreciation	46,482	49,080
	24,730,542	19,906,282
Operating profit	923,726	419,227
Share of loss of Computer Horizons (Canada) Limited	48,351	19,263
Income before income taxes and extraordinary item	875,375	399,964
Income taxes	444,000	258,800
Income before extraordinary item	431,375	141,164
Gain on disposal of land	134,824	—
Net income for the year	$ 566,199	$ 141,164
Earnings per common share:		
Before extraordinary item	$ .82	$ .24
Extraordinary item	.27	—
	$1.09	$ .24

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1972

(with comparative figures for 1971)

Source.

	1972	1971
Income		
Income before extraordinary item	$ 431,375	$ 141,164
Non-cash charges		
Depreciation	46,482	49,080
Deferred income taxes	18,000	5,800
Loss on disposal of equipment	2,487	—
Share of loss of Computer Horizons (Canada) Limited	48,351	19,263
	546,695	215,307
Proceeds from sale of land	141,128	—
Proceeds from disposal of equipment	56,896	4,281
Reduction in mortgage receivable	20,000	20,000
Second preference shares issued	39,000	35,500
Debentures issued	21,000	31,500
Proceeds from sale of life insurance policy	—	2,880
	$ 824,719	$ 309,468

Application.

	1972	1971
Purchase of property, plant and equipment	$ 65,675	$ 58,113
Increase in cash surrender value of insurance	958	1,009
Advances to Computer Horizons (Canada) Limited	34,061	(17,867)
Decrease in long-term debt	95,747	51,885
Investment in debenture receivable	68,885	—
Redemption of first preference shares	11,550	500
Redemption of second preference shares	23,500	35,000
Redemption of debentures	7,000	—
Payment of dividends	21,066	20,904
	$ 328,442	$ 149,544
Increase in working capital	$ 496,277	$ 159,924

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

1. Principles of Consolidation.

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Howden-Howland Limited, Cowan Hardware (1968) Limited, D. H. Howden Stores (Central) Limited, and Wiseway of Canada Limited. Wiseway of Canada Limited as part of its business, buys goods for resale to franchised retail dealers without mark-up. These purchases and sales are not an integral part of the business of D. H. Howden & Co. Limited and therefore they have been excluded from the figures of sales and cost of sales in the consolidated statement of income. Comparative figures for 1971 have been restated to reflect this change in financial reporting. Net income previously reported is unaffected by this restatement.

The equity of D.H. Howden & Co. Limited in unconsolidated subsidiaries consists of the company's investment in Pro Hardware (Canada) Limited and in Span-Canada Electric Limited. Although these two companies are technically subsidiaries of D. H. Howden & Co. Limited through ownership of voting control, in substance they represent corporate joint ventures on the part of a number of non-competing wholesalers who participate in an integrated merchandising programme and volume purchasing. It was considered inappropriate to consolidate the assets and liabilities of these companies since they consist primarily of amounts due from unrelated companies to these subsidiaries with offsetting amounts due to various manufacturers for purchases made on their behalf. All the expenses of these companies and volume discounts derived from their operations are apportioned to participating member companies. The share of D. H. Howden & Co. Limited in these expenses and volume discounts is reflected in the accompanying financial statements.

2. Computer Horizons (Canada) Limited.

	1972	1971
Investment - 20,000 common shares of no par value	$ 1,000	$ 1,000
Advances of working capital	82,922	48,861
	83,922	49,861
Deduct: Share of deficit - 50%	(105,343)	(56,992)
Excess of share of deficit over investment and advances	$ (21,421)	$ (7,131)
Contingent liability re guarantee of bank loan	$ 100,000	$ 75,000

Computer Horizons (Canada) Limited is a company jointly owned with Management Horizons Data System Inc. of Columbus, Ohio. The company incurred a net loss of $96,701 for the year ended December 31, 1972 and has an accumulated deficit of $210,686 as at that date. D. H. Howden & Co. Limited's share of the accumulated deficit amounting to $105,343 has been reflected in these accounts. The company has also guaranteed the repayment of all liabilities of Computer Horizons (Canada) Limited. At December 31, 1972 the excess of liabilities over assets amounted to $208,686.

In prior years the company has used the cost method of accounting for its investment in Computer Horizons but adopted the equity method during 1972. As a result of this change in accounting practice, the balance of retained earnings at December 31, 1971 previously reported as $1,909,253 has been restated to show a retroactive charge of $56,992 representing 50% of the deficit of Computer Horizons as at December 31, 1971. Of the $56,992, $19,263 is applicable to 1971 and has been charged to income for that year. The remaining $37,729 is applicable to 1970 and has been charged to retained earnings at January 1, 1971, previously reported as $1,769,730.

3. Deferred Income Taxes.

Deferred income taxes arise only on consolidation because the elimination of inter-company profits in inventories results in a decrease in consolidated net income to date and a consequent reduction in consolidated income taxes payable.

4. Lease Obligations.

Annual rentals payable for warehouse and retail premises under leases expiring more than three years from December 31, 1972 approximate $141,000. Such leases expire at varying dates before 1995.

5. Contingent Liabilities.

The company is contingently liable in the amount of $334,000 for the guarantee of bank loans and conditional sales contracts, inclusive of the bank loan of Computer Horizons (Canada) Limited.

6. Long-term Debt.

	1972	1971
D. H. Howden Stores (Central) Limited		
8% chattel mortgage repayable in semi-annual instalments of principal of $2,143 plus interest, maturing August 1, 1976.	$ –	$ 21,429
Cowan Hardware (1968) Limited		
8% first mortgage debenture repayable in monthly instalments of $1,923 blended principal and interest, maturing October 1, 1976.	74,907	101,464
Wiseway of Canada Limited		
6% unsecured debentures repayable within one year of termination of franchise agreements.	45,500	31,500
D. H. Howden & Co. Limited		
6% floating charge sinking fund debentures maturing May 1, 1989.	939,550	950,500
	1,059,957	1,104,893
Less portion due within one year	68,848	32,037
	$ 991,109	$ 1,072,856

Under the terms of the Trust Indenture dated May 1, 1969 relating to the 6% sinking fund debentures, the company is required to pay to the trustee for sinking fund purposes by May 1 each year, a sum equal to 10% of the company's net income excluding that of subsidiary companies.

7. Capital Stock.

First Preference Shares

The provisions relating to the payments of dividends confer upon the holders of first preference shares a right to participate in dividends on an equal basis with the common shareholders up to a maximum of $2 per share, after a dividend of $.06 has been declared on each common share.

Under the redemption provisions attaching to the first preference shares, 231 shares were purchased for cancellation during the year at a cost of $9,904.

Second Preference Shares

During the year 39,000 second preference shares were issued for cash and 23,500 shares were redeemed at par value.

8. Remuneration of Directors and Senior Officers.

The aggregate direct remuneration for the year of the directors and senior officers amounted to $208,177, of which $181,177 was paid by the company and its consolidated subsidiaries and $27,000 was paid by unconsolidated subsidiaries.

9. Comparative Figures.

The comparative figures have been reclassified where necessary to conform with the current year's classification.

Auditors' Report

The Shareholders,
D. H. Howden & Co. Limited.

We have examined the consolidated balance sheet of D. H. Howden & Co. Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes outlined in note 2 to the financial statements.

LONDON, Ontario,
February 2, 1973.

Touche Ross & Co

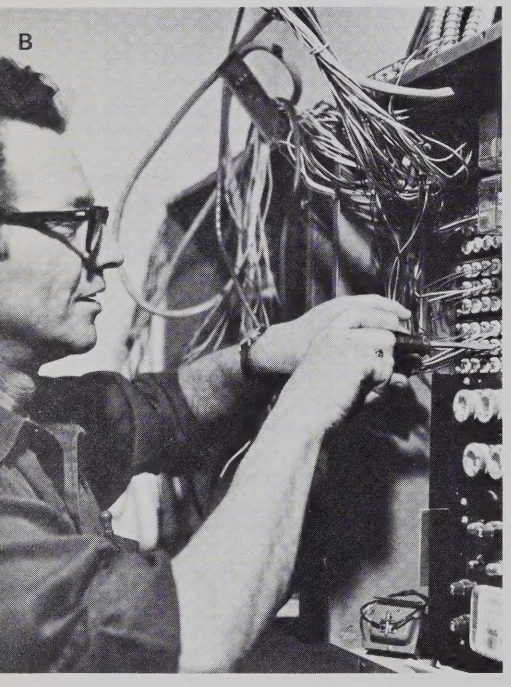
Chartered Accountants.

Five Year Financial Review.

	1972	1971 (Restated	1970 (Restated)	1969	1968
Operating Results					
Gross sales	$27,794,722	$22,045,644	$20,118,085	$21,796,287	$19,577,456
Income before income taxes and extraordinary item	875,375	399,964	182,518	366,606	539,178
Income taxes	444,000	258,800	115,600	182,695	281,000
Income before extraordinary item	431,375	141,164	66,918	183,911	258,178
Gain on disposal of land	134,824			181,990	
Net income	566,199	141,164	66,918	365,901	258,178
Retained earnings	2,397,394	1,852,261	1,732,001	1,686,576	1,357,795
Financial Position					
Accounts receivable (net)	4,940,433	3,695,805	3,089,443	3,092,691	2,368,017
Inventories	3,331,779	2,651,372	2,592,864	2,803,080	2,397,661
Total current liabilities	4,662,107	3,277,627	2,906,757	3,156,881	2,798,519
Working capital	3,737,735	3,241,458	3,081,534	3,075,046	2,041,594
Long-term debt	991,109	1,072,856	1,093,241	1,123,664	129,354
Shareholders' equity	3,204,894	2,655,811	2,535,551	2,498,876	2,174,945
Per Common Share					
Earnings before extraordinary item	0.82	0.24	0.09	0.32	0.41
Net earnings	1.09	0.24	0.09	0.68	0.41
Shareholders' equity	5.38	4.29	4.05	3.95	3.30
Ratios and Statistics					
Current ratio	1.80:1	1.99:1	2.06:1	1.97:1	1.73:1
Equity capital to long-term debt	81.5%	74.9%	73.5%	72.3%	631.7%
*Return on net worth (January 1)	16.2%	5.6%	2.7%	8.5%	
Number of common shares outstanding	500,000	500,000	500,000	500,000	
Number of common shareholders	756	767	807	790	

*Before extraordinary gain

About Your Company.



Some excerpts from the Management Manual on "Objectives, Strategy and Policy of D. H. Howden & Co. Limited" are given to explain aspects of corporate philosophy to Shareholders.

OBJECTIVE OF THE BUSINESS

To achieve annually net profit of at least 15% of net worth.

DEFINITIONS OF THE BUSINESS

a) What Business is Howden In?

Howden is an operating company encompassing four basic roles:

1. a distributor of consumer merchandise to retailers;
2. a distributor of electrical construction materials to the construction trade and industrial firms;
3. a supplier of services and systems to retailers and other distributors; and
4. a partner in retail stores, situated in prime locations, operated by competent and trained independent management, selling principally Howden's merchandise and using Howden's services and systems.

b) What Products Does Howden Sell?

The Company satisfies a broad area of consumer wants (a) by providing the consumer with hardware, shelter, leisure and entertainment products, through selected dealers; and (b) by selling electrical products used in construction to the electrical trades, and electrical products used in manufacturing, to industry.

c) What Services and Systems Does Howden Sell?

1. Total advertising programs and materials to selected retailers.
2. Catalogue price book services to selected retailers.
3. Store modernization, merchandising and design services to selected retailers.

A The Southdale Road Installation (155,000 sq. ft.) from the Air

B Installing Electrical Division Products in the Green Acres Complex, 190 Cherry Hill Circle, London, Ontario

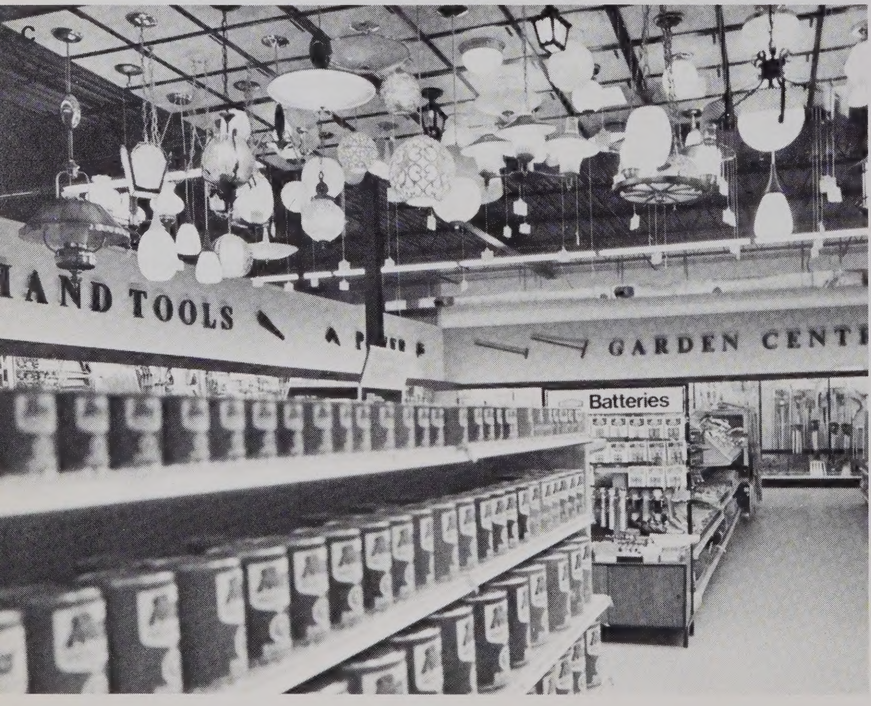
C View in Model Store, Hargrieve Road, London

D Columbia Products for the Discerning Home Owner

E Dealers Buying For Spring

F New Look in Hardware Stores - Westmount Mall, London, Ontario

G The Columbus Data Centre



4. Data processing systems to distributors.
5. Data processing systems and services to selected retailers.
6. Management services to building materials dealers (Wiseway).
7. Financial and systems consulting to retailers, on a per diem basis.
8. Financing assistance as required by growing dealers.

d) New Venture Policy

Diversification is confined to fields within corporate knowledge, such as distribution, and services and systems developments which expand or improve the present business knowledge of the Company. This normally excludes manufacturing or activities beyond those functions referred to in paragraphs a) b) and c) above.

e) Basic Corporate Philosophy

1. To conduct business in a manner that is constructive, fair and mutually profitable for stockholder, employee, customer, supplier, the consumer and the general community.
2. To choose integrity in employee relations, to promote on a basis of merit, to maintain a consistent employee remuneration program, to recognize seniority through fringe benefits.
3. To operate a consistently profitable business, on the premise that the Company must sell to its customers superior knowledge which will make the customer's business more rewarding. Merchandise thus purchased then becomes the medium of exchange to obtain this specialized knowledge. Along with selling the right merchandise there is a prime corporate emphasis to continually develop this reservoir of superior knowledge unavailable to customers from other suppliers.
4. To maintain a customer-oriented attitude, looking outward for markets, studying the needs of customers, designing offers to profitably meet those needs.
5. To provide systems and services, not as mandatory conditions, but because they meet customers' needs. They are sold by knowledgeable people, at prices which warrant their acceptance and continued use, and as an important source of revenue.

E

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